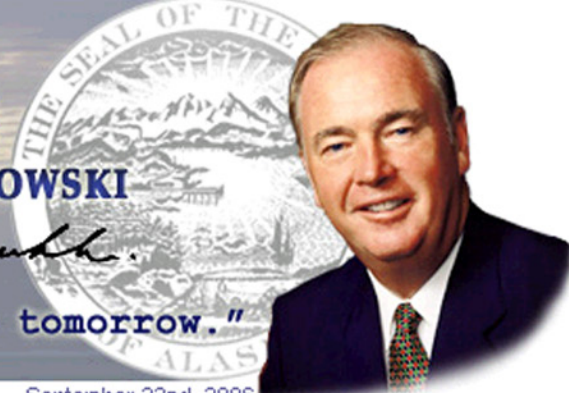


BUILDING THE FUTURE

A WEEKLY UPDATE FROM GOVERNOR MURKOWSKI

Frank H. Murkowski
"Taking responsibility today for Alaska's tomorrow."



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Contact Governor
Frank H. Murkowski

Juneau Office
P.O. Box 110001
Juneau, AK 99811

907-465-3500 phone
907-465-3532 fax
State info 907-465-2111

Anchorage Office
550 West 7th Avenue, Suite 1700
Anchorage, AK 99501

907-269-7450 phone
907-269-7461 fax
State info 907-269-5111

Kenai Office
11312 Kenai Spur Hwy, Suite 2
Kenai, AK 99611

907-283-2918 phone
907-283-3037 fax

Mat-Su Office
877 Commercial Drive
Wasilla, AK 99654

907-352-2585 phone
907-352-2526 fax

Fairbanks Office
675 7th Avenue, Suite H5
Fairbanks, AK 99701-4596

907-451-2920 phone
907-451-2858 fax

Washington DC Office
444 North Capitol NW, Suite 336
Washington, DC 20001-1512

202-624-5858 phone
202-624-5857 fax

Permanent Fund Celebrates 30 Years

This week in Anchorage I had the pleasure of announcing the 2006 Permanent Fund Dividend amount. Believe me, I know how much Alaskans look forward to this announcement, especially since this year's dividend represents a 30 year history of contributions to Alaska and Alaskans.

During our administration's four years, we have worked hard to achieve stability in state finances, which of course, is integral to the future health of Alaska's economy.

When I came into office in December 2002, Alaska faced an \$800 million budget deficit. Forecasted state revenues were bleak and oil production was on the decline. The prior administration wanted an income tax, but that was the last place I was willing to go. Instead, we convened the Conference of Alaskans, and we listened and took action.

We introduced the Percent of Market Value, or POMV approach, which for a number of years was supported by the Permanent Fund's Board. This approach included the Board's payout mechanism of five percent of the Fund's value, and my proposal went further: half of the payout for dividends, 45 percent for K-12 education, and five percent for local governments.

It was and still is the best way to protect dividends and ensure stable funding for essential government responsibilities. POMV then passed the House but failed in the Senate. Since then, high oil prices have masked the impact of Alaska's declining oil production.

Recently, the vulnerability of how Alaska pays for state services was dramatically highlighted by the Prudhoe Bay shutdown. This has reduced the flow of oil to what it will be in 2016, just ten short years from now. Our vulnerability is also evident in the volatility of oil prices. We've seen a 19 percent drop since the August high of \$75.

Alaska still needs a fiscal plan, and that is why Alaska needs the gas pipeline.

The gas pipeline provides us the opportunity to replace our declining TAPS oil flow by monetizing our gas.

Passage of the Petroleum Production Tax (PPT) was the first step in building our bridge to fiscal stability, but additional revenue hinges on arresting the decline in oil production. The most important aspect of the PPT will do just that by providing incentives to increase oil production.

Alaskans must realize there is a ten year lead time to build the gas pipeline if the contract was signed today. That's why we need to get a gas pipeline contract now. With a contract, there will be exploration for gas, which will find more oil. There will be exploration for oil, which will find more gas, and the Legislature's failure to take action is a decision for which it must be accountable.

I am deeply concerned that without a gas pipeline contract the reserves tax will pass, thereby embroiling the producers and the state in litigation - instead of negotiations. This would be a shame, something for which future generations of Alaskans will hold this generation accountable.

The rest of the United States is watching. Congress has done its part with financial guarantees. Vice President Cheney has urged Alaska Legislators to take action to meet America's energy needs, but it seems that some are so concerned with what the producers get out of the deal that they forget how much Alaska needs a gas pipeline. Calling for more studies, re-hashing the same issues while the global marketplace passes Alaska by is nothing more than gambling on Alaska's future.

At the same time Alaskans benefit from the success of our Permanent Fund, the Wall Street Journal lashes out at how Alaskans expect the federal government to finance our wants and needs by pointing out that Alaska gets back double in federal funds what Alaskans pay in federal income taxes.

We are one of two states with no state income tax or sales tax.

We are the only state that pays out a dividend.

Today these advantages are tied to revenue from oil and gas, and tomorrow these advantages will be tied to revenue from oil and gas.

If we want to retain these advantages for our children and grandchildren, we must realize that the future of Alaska's economy quite simply hinges on building the gas pipeline.

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